

Joint CPUC/CEC Recommendations to ARB on Allocation of Allowances for the Electricity Sector

Presentation to the Economic and Allocation Advisory
Committee

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CPUC/CEC Role in AB32

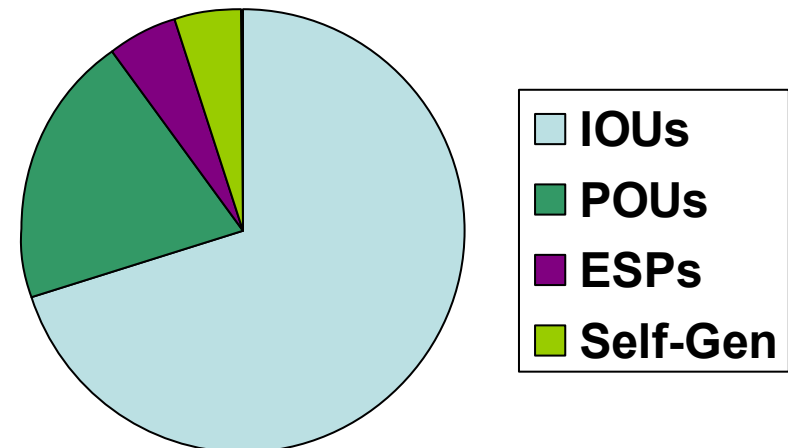
- Joint CPUC/CEC proceeding to make recommendations to ARB on policies for electricity and natural gas sectors
- Ongoing coordination with ARB and California Environmental Protection Agency



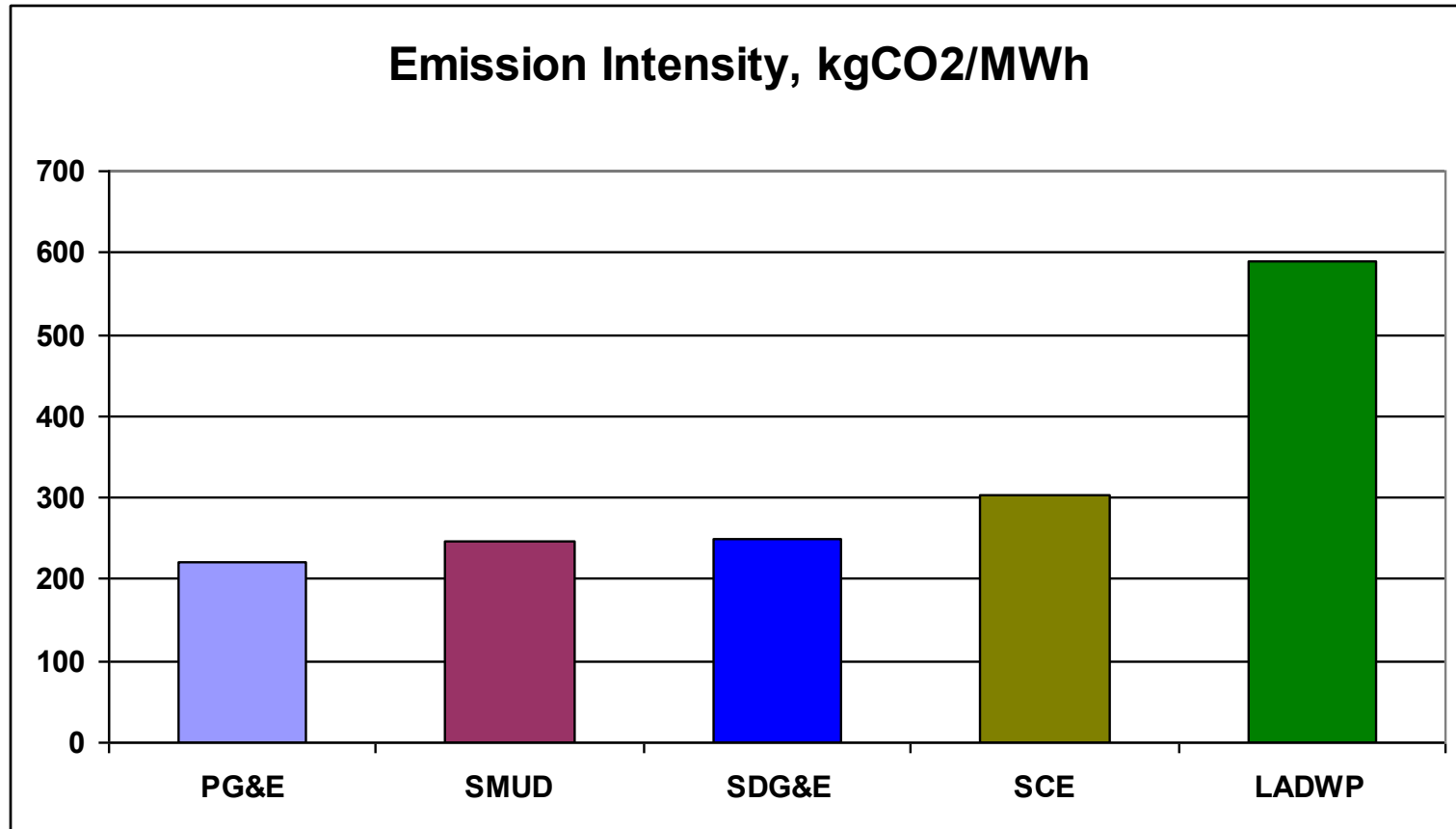
Diverse Structures of CA's Retail Providers

- Investor-Owned Utilities
- Publicly-Owned Utilities
- Electric Service Providers
- Self-Gen/CHP

Shares of California Load by Provider



Portfolios Differ Substantially



Allocation to the Electricity Sector

- Generally recommend allocation to electricity sector proportional to its historical emissions contribution in baseline period, ramping down to 2020 goal proportionally with other sectors
- Considering whether the potential for policies, such as transportation electrification, that may increase load would alter the proportional share recommendation



Criteria for Choosing Among Allocation Options

Applied the following criteria to each approach:

- Minimizes cost to consumers
- Provides equity among market participants
- Supports a well-functioning market with accurate prices, certainty, and predictability
- Simple to administer
- Aligns incentives with AB 32 goals



Allocation Options Considered

- Historical Emissions-Basis to Deliverers
- Output-Basis to Deliverers
- Fuel-Differentiated Output-Basis to Deliverers
- Auctioning: Revenues to Retail Providers on Historical Emissions-Basis
- Auctioning: Revenues to Retail Providers on Sales-Basis



Recommended Allocation to “Deliverers”

- Initially, 80% distributed administratively to deliverers, 20% allocated to retail providers ramping up annually by 20% to 100% allocation to retail providers by 2016
- Free allowances allocated to deliverers on updating output basis
- Fuel-differentiated approach chosen to minimize transfers from customers of high-GHG retail providers



Recommended Allocation to Retail Providers

- Allowances for auction granted to the electricity retail providers, on behalf of their customers
- Retail providers required to sell allowances in an independent, centralized auction
- Allowance allocations to change over time, from historical portfolio emissions basis to sales basis by 2020 to allow transition time for retail providers with high emissions

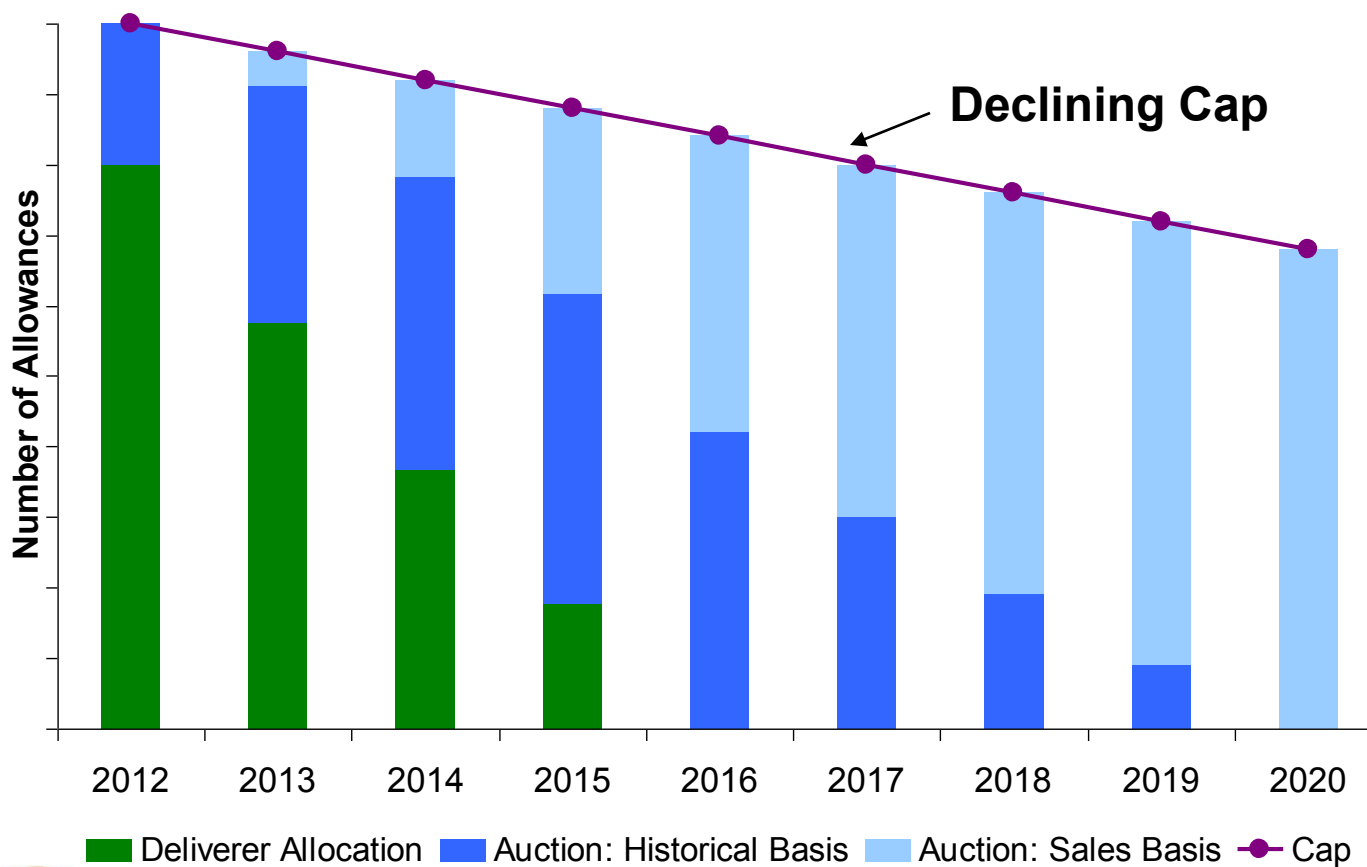


Guidelines for Use of Auction Revenues

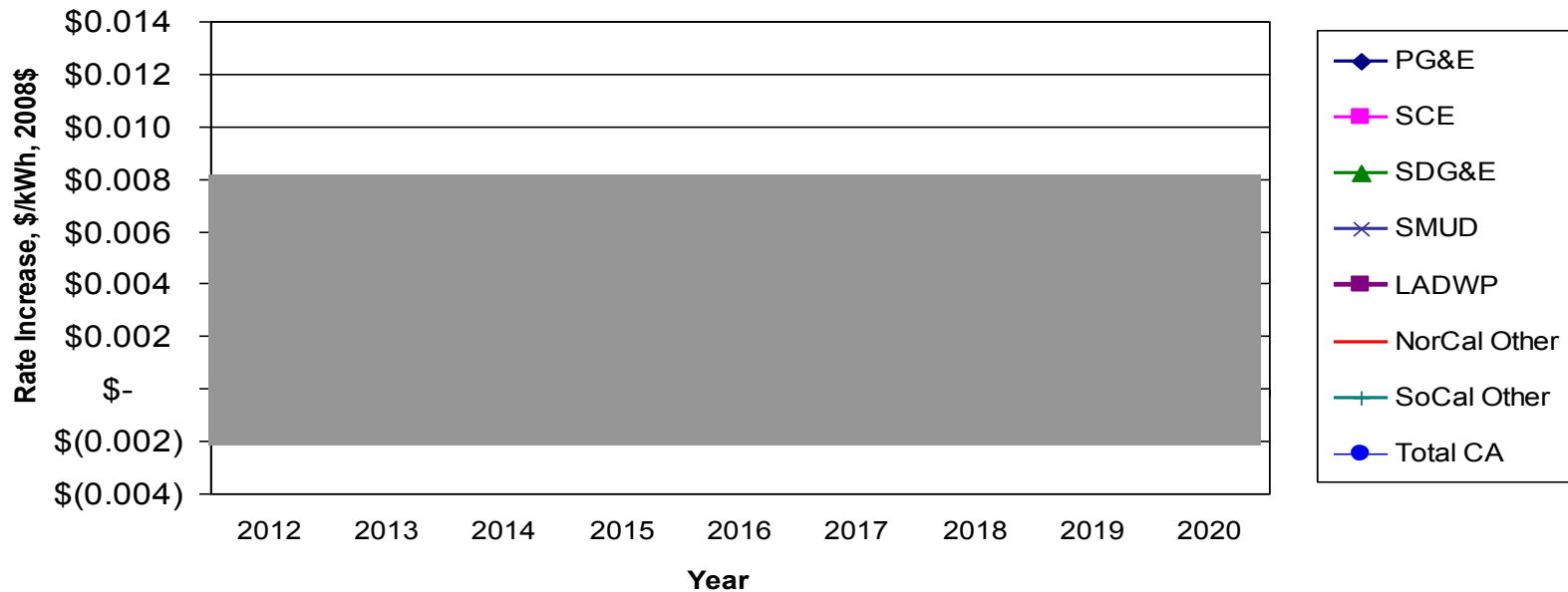
- All auction revenues to be used for purposes of AB 32
- Revenue from allowances auctioned by retail providers used to support investments in renewable energy, efficiency, new energy technology, infrastructure, lump-sum bill relief for consumers
 - Use of revenues overseen by CPUC and POU governing boards



Summary of Recommended Approach to Allowance Allocation for Electric Sector



Impact of Recommended Allocation Approach on Average Retail Rates

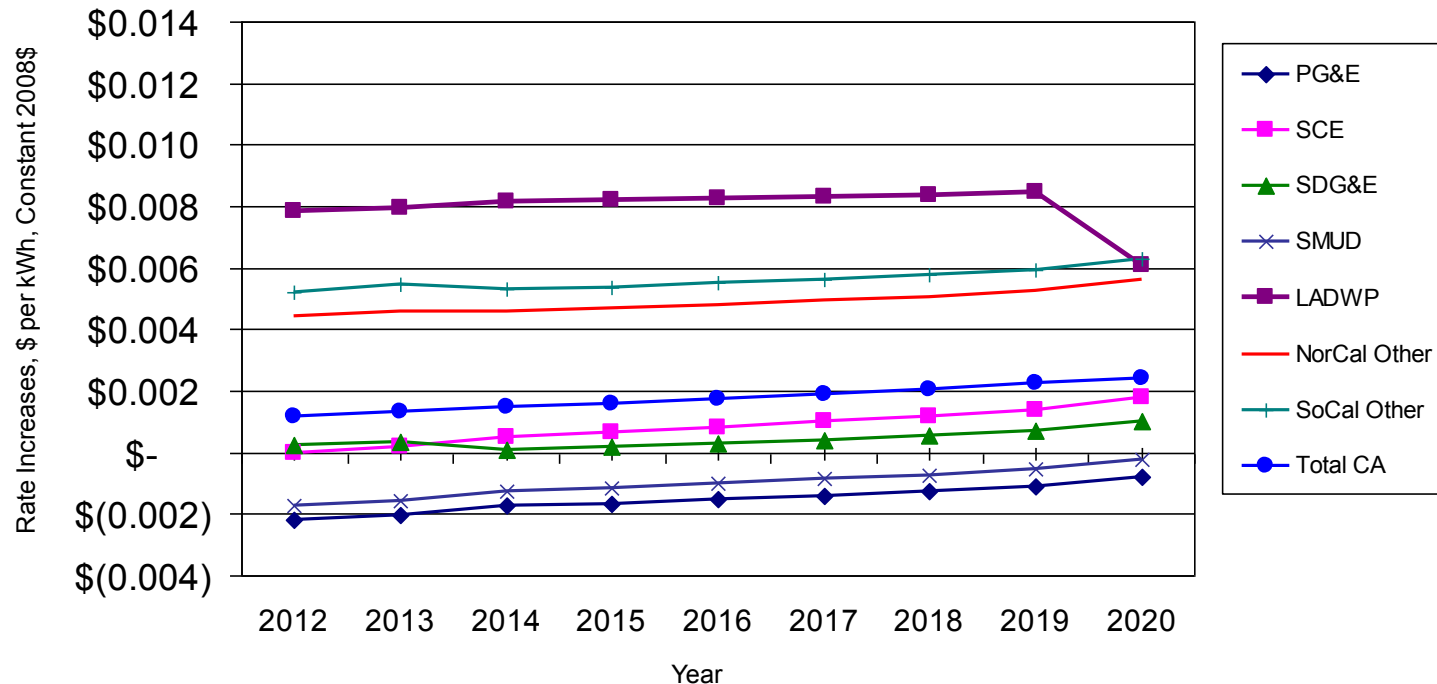


Low = -0.2 ¢/kWh

High = +0.8 ¢/kWh



Auctioning with Sales-Based Revenue Return as Cap & Dividend Proxy



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